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President and CEO's speech at Fortum's Annual General Meeting 2011

Mr. Chairman, honourable shareholders, ladies and gentlemen,

Over the past few weeks, we have all watched the devastating news about the natural disaster that hit Japan. The world's strongest earthquake in 40 years and the ensuing tsunami caused immense damage and immeasurable human suffering. We have also watched the Japanese struggle to bring the Fukushima nuclear power plant, crippled in the natural disaster, under control.

As a nuclear power company, Fortum is deeply concerned about the accident at the Fukushima plant. For us, safety is always the most important and the primary factor behind all activities in nuclear power production. Over the years, the management of severe reactor accidents has been improved significantly at our Loviisa power plant and at our co-owned plants. Nuclear safety is also the specific focus in a significant part of Fortum's research and development work. Based on this work, the Loviisa power plant's safety and preparedness for severe accidents has been and will continue to be improved over the long-term.

Regarding Fortum, I would like to add that the situation in Japan has not changed the underlying fundamentals of the Loviisa replacement investments. Loviisa will be needed also in the future as an important production site; it has strong nuclear power expertise and a solid safety culture as well as all the infrastructure in place. Loviisa is also a central junction point for the national grid. And certainly today there is a better understanding that the lifetime of the current plants is limited to 2027 and 2030.

But then there is the "but" following the incident in Japan. We understand that the general concern related to nuclear power has grown and the readiness to make a quick political commitment to replacement investments has now undoubtedly become more difficult. It is important also for Fortum that the replacement investments have both wide political and public approval. Therefore I would hope that no hasty conclusions are made about the future and risks of nuclear power; rather, enough time should be reserved to make the necessary safety analyses. The entire sector must now work to restore confidence in nuclear power.

I participated in an emergency meeting for energy ministers and nuclear operators convened by the EU Energy Commissioner Oettinger a couple of weeks ago. I fully support the proposed EU-wide safety reviews for nuclear power plants; these reviews should be extended to also neighbouring countries, if possible. Initiatives by authorities to improve safety are welcomed. Using more uniform international standards to test nuclear plant safety is the right approach and an open dialogue about risks and nuclear power safety benefits energy producers and consumers alike.

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In light of the recent crisis, many also easily forget that climate change is – and will remain – a global challenge in need of solutions. Curbing emissions and the scarcity of natural resources are weighed against the increase in energy consumption that is driven by population growth. This means that energy use must be made more efficient while bringing electricity and modern energy systems to an increasing number of people. On the other hand, the need to improve energy efficiency emphasises the role of electricity and offers business opportunities for Fortum.

We should keep in mind that the majority of the world is still living in the so-called steam engine era, where electricity is produced primarily from low-efficiency and high-emissions fossil fuels. Longer term, we will inevitably move towards a solar economy where production is based on emissions-free, renewable and virtually inexhaustible energy sources. However, changes are slow in the capital-intensive energy industry. With the exception of hydropower, most forms of energy production in a solar economy are still in the development phase and require significant subsidies from society.

Despite the events in Japan, I believe that nuclear power and high-efficiency combined heat and power production will be emphasised in energy production during the transition phase. It is the responsibility of energy producers like us to ensure that the transition toward a solar economy is made safely and in an economically sustainable manner. If nuclear power is not among the technologies used, achieving the set climate targets will become even more difficult, if not impossible.

Last year Fortum assessed the impacts of global changes on the company's business, future challenges and opportunities. Based on the assessments, we renewed our strategy. We identified several interesting growth opportunities that are primarily based on our strengths in the production side. The growing demand for CO₂-free and energy-efficient solutions and the increasing consumption in the liberalising energy markets offer Fortum new opportunities for growth.

The cornerstones of our operations are embodied in our mission: "Fortum's purpose is to create energy that improves life for present and future generations. We provide sustainable solutions that fulfil the needs for low emissions, resource-efficiency and energy security, and deliver excellent value to our shareholders."

Supported by its renewed strategy, Fortum is preparing for growth. Maintaining a strong balance sheet that enables us to tap into attractive growth opportunities also in the long run is a priority for us. When pursuing new opportunities, we can base our growth also on the in-depth know-how gained from operating in the competitive Nordic power market. In the integrating European markets and the Russian market, Fortum's electricity market know-how will continue to have a central role in terms of value creation for the company.

A central part of our core competence is also emissions-free hydropower production. Hydropower has an important role in the future solar economy, and its role in balancing production and consumption will only become more enhanced as electricity is gradually pro-

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duced more with, for example, wind and solar energy. With hydropower, we can also react quickly to different market conditions and operate competitively in the electricity markets. About one third of the electricity produced annually by Fortum comes from hydropower, which doesn't cause emissions to air, water or soil. We own or co-own about 260 hydropower plants in Sweden and Finland. We also have a 25-percent share in the Russian TGC-1 that owns 40 some hydropower plants just east of the Finnish boarder. As part of the implementation of our strategy, we are preparing to participate in the tender processes for hydropower concessions in France, which are expected to officially start this year.

In Finland, hydropower potential is limited. Therefore, opportunities that still exist should be explored with an open mind. Kemijoki Oy has pursued a solution for the Kemijoki basin that would significantly decrease the direct environmental impacts of the basin by delimiting the most sensitive and valuable environmental areas. The plan also takes into better consideration the impacts related to flood protection and recreational use of the area. If the project's overall social impacts are positive, Fortum is of the opinion that the basin should be built. The basin would bring the much-needed regulating power to Finland and would supplement Finland's intraday regulating power capacity by 10-15 percent.

In addition to hydropower, our strategy builds on our deep expertise in combined heat and power (CHP) production, in which we use a broad range of fuels. Energy-efficient CHP production that conserves natural resources is a competitive solution for future energy production. It has a very important role in reducing the environmental load of urban areas and in achieving emissions reduction targets. Our goal is to decrease environmental impacts by increasing production based on local biofuels and waste-derived fuels. In fact, one of the focus areas of our research and development is the exploration of the pyrolysis process to produce bio-oil.

District heat based on energy-efficient CHP production is a good and environmentally sound way to provide heat to urban and populated areas, and its competitiveness should be taken into regard when making decision e.g. on fuel taxes.

Electricity distribution has a central role in Fortum's operations in the Nordic countries. Since the distribution of electricity is a regulated business, the significance of regulations and rules set by authorities will be emphasised in its development. The grids in Finland and Sweden were built mainly for society in the 1970s. This means that the investment needs to maintain the grids and to improve the security of supply are big and will grow considerably when switching to smart grids. Authorities must also take these investment needs into consideration when agreeing on regulation models and grid tariffs.

Alongside our Nordic core business, our operations in Russia are of growing importance. Russia is the fastest growing national economy in Fortum's current market areas, and Fortum has committed to a sizable investment programme in the country. We are the single biggest Finnish investor in Russia. Our investments account for just over one third of the total Finnish investments in the country. Russia has also made a rapid recovery from the financial crisis and the demand for electricity has picked up quickly. Power market reform

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progressed in line with the Russian Government's decisions, and the electricity wholesale market has been fully liberalised since the beginning of 2011.

I am confident that our investments in Russia will start bearing fruit and generating steady earnings growth in upcoming years. The new capacity to be built within the scope of the investment programme plays a key role in this. In light of the improved outlook, we decided to accelerate our investment programme, and we expect to finalise it in 2014.

The building of new units in Russia is based on energy-efficient technologies that save fuel and offer clear environmental benefits. At the end of 2010, we inaugurated the first new unit of our investment programme at Tyumen CHP-1. The new unit will reduce greenhouse gas emissions by almost one million tonne by 2012, and it was approved as a Joint Implementation project under the Kyoto mechanisms.

In addition to Russia, Fortum sees opportunities elsewhere in the east. In the long-term, I believe that the focus of the growth in the demand for electricity will shift increasingly to the rapidly growing and developing economies of Asia, where the liberalisation of electricity markets is progressing and the need for private capital is growing. Climate change and local environmental problems create a need for Fortum's core competence – sustainable, CO₂-free and energy-efficient solutions. We are also carefully exploring opportunities in the integrating European markets.

Through our growth-focussed strategy, we aim to produce significant added value for our shareholders. This is important for Fortum, and that is why we have also included it in our mission. I dare to say that over the past ten years we have succeeded in this task. During this time our shareholder value has increased by 26.2 billion euros and our share price development has been substantially more positive than that of the majority of our European peer group companies. As Chairman of the Board Matti Lehti already pointed out, Fortum succeeded very well in this respect also in 2010.

I am also very pleased with the positive uplift in our public image and our customer satisfaction during the past year. The international Brand Finance put the value of Fortum's brand in 2010 at an estimated 1.4 billion euros; this makes Fortum the third most valuable company in Finland. We also renewed our position as the only Nordic power and heat company in the most important sustainability indexes, like the Dow Jones Sustainability World index. This is unbiased recognition of our long-term efforts in different areas of sustainability and a clear indication of our excellent level of performance.

I think we can also be satisfied with Fortum's financial performance in 2010. Industrial production and electricity consumption in Fortum's most important market areas increased clearly, and three of our five business areas succeeded in improving their financial results. Our comparable operating profit remained at the 2009 level. I consider this a good accomplishment, considering that during the deepest recession we had conservatively hedged our 2010 electricity wholesales in the Nordic countries with derivatives. Fortum uses de-

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derivatives to safeguard its cash flow and earnings against fluctuations in the wholesale price of electricity.

All in all, Fortum's financial situation and liquidity are good. Our key profit targets have remained unchanged. A strong balance sheet and flexible capital structure will continue to be important for us.

We are pursuing future growth supported by our values, which are accountability, creativity, respect and honesty. We aim for performance excellence also by improving productivity and by developing our core processes. As an example of this, I would like to mention the long-term leadership development programme launched in 2010. Its purpose is to ensure the implementation of our updated strategy and to develop the corporate culture to improve performance and growth.

Fortum Management Team members

Our dedicated Management Team has contributed to Fortum's development, and I would like to present the members here.

Anne Brunila is Executive Vice President of Corporate Relations and Sustainability.

Alexander Chuvayev is Executive Vice President of the Russia Division; he is also General Director of OAO Fortum and the Country responsible for Russia.

Mikael Frisk is Senior Vice President of Corporate Human Resources.

Timo Karttinen is Executive Vice President of Electricity Solutions and Distribution Division; he is also the Country responsible for Finland and Norway.

Juha Laaksonen is Executive Vice President and Chief Financial Officer.

Per Langer is Executive Vice President of the Heat Division; he is also the Country responsible for Sweden, Poland and the Baltics.

Maria Paatero-Kaarnakari is Senior Vice President of Corporate Strategy and R&D.

Matti Ruotsala is Executive Vice President of the Power Division.

I would like to take this opportunity to also thank our competent and motivated personnel; they have played the key role in making the company an increasingly stronger player in the energy markets. Furthermore, I would like to personally thank Fortum's Board of Directors and especially Chairman Matti Lehti, whose versatile business leadership experience has been of valuable support also to me.

I have been Fortum's President and CEO for two years now. During this time it has become increasingly clear that changes in our operating environment often happen at a fast pace. On the other hand, important decisions affecting our business must be made with deliberation and with the long-term in mind because they also impact the lives of future generations. The energy industry in general, and the electricity sector in particular, has become one of the most interesting branches of business globally, and its importance surely will only grow in the future. I want to help make Fortum a company that stays at the

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top of the wave of development, regardless of global or local challenges. Our company has all the prerequisites needed for this.